

Message Text

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PAGE 01 ROME 00716 01 OF 02 171720Z

ACTION IO-13

INFO OCT-01 AGRE-00 USIA-06 AID-05 EB-07 AF-08 ARA-06
EA-07 EUR-12 NEA-10 COME-00 ISO-00 TRSE-00 L-03 /078 W
-----171844Z 068238 /47

R 171633Z JAN 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 2198

INFO AMEMBASSY COLOMBO

AMEMBASSY JAKARTA

AMEMBASSY LONDON

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LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 0716

FODAG

E.O. 11652: N/A

TAGS: ETRD, EAGR, FAO

SUBJECT: DOCUMENTATION FOR FOURTH SESSION OF THE FAO'S INTER-
GOVERNMENTAL GROUP ON TEA MEETING IN LONDON,
FEBRUARY 14-25, 1977

REF: ROME 7126, ROME 6372

BEGIN UNCLASSIFIED: SUMMARY: FAO HAS COMPLETED DOCUMENTA-
TION FOR TEA EXPERTS MEETINGS IN LONDON, FEB 14-25. MOST
RECENT DOCUMENTATION INCLUDES AGENDA, QUESTIONNAIRE, AND
PAPER ON IMPROVED INFORMATION FOR STATISTICAL SUBGROUP. MORE
IMPORTANT FOR FULL INTERGOVERNMENTAL GROUP (IG) MEETING
ARE PAPERS DESCRIBING A POSSIBLE INDICATIVE TEA PRICE, A MORE
MODERATE LONG-TERM TEA PRODUCTION/CONSUMPTION ASSESSMENT, AND
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PAGE 02 ROME 00716 01 OF 02 171720Z

A PAPER ON POSSIBLE PROVISIONS FOR AN INTERNATIONAL TEA AGREE-
MENT BASED ON A STAND-BY EXPORT QUOTA SYSTEM. THE LATTER
HAS BEEN MODIFIED TO SEEK AFRICAN SUPPORT AND ALSO THE WHOLE
AGREEMENT IS NOW PUT INTO THE SETTING OF THE UNCTAD INTEGRATED
COMMODITY PROGRAM AND ITS COMMON FUND. END SUMMARY

1. THE FAO HAS MAILED OUT INVITATIONS TO MEMBERS OF THE FAO

INTERGOVERNMENTAL GROUP ON TEA, SUBGROUP ON STATISTICS, AND SUBGROUP ON EXPORTS. THESE MEETINGS WILL BE HELD AT THE INVITATION OF THE UNITED KINGDOM IN LONDON AT 116-119 PALL MALL. THE EXPORTERS WILL MEET FIRST, FEBRUARY 14-18, THE STATISTICAL SUBGROUP FEBRUARY 19, AND THE FULL IG ON TEA FEBRUARY 21-25.

3. IN PREPARATION FOR THE STATISTICS MEETING, THE FAO HAS REQUESTED THE FOLLOWING INFORMATION BE SUPPLIED TO IT BY FEBRUARY 14:

- A. PRODUCTION - 1976 ESTIMATE;
- B. PRODUCTION - 1977 FORECAST;
- C. EXPORTS (NET OF IMPORTS, IF ANY) 1976 ESTIMATE;
- D. NET EXPORT AVAILABILITIES - 1977 FORECAST;
- E. IMPORTS (NET OF RE-EXPORTS, IF ANY) 1976 ESTIMATE;
- F. NET IMPORT REQUIREMENTS - 1977 FORECAST.

THE STATISTICAL GROUP'S AGENDA, TE 77/ST/1, BESIDES OBVIOUS ESTIMATES OF PRODUCTION, IMPORTS AND EXPORTS FOR THE YEARS 1973-77, INCLUDES A DISCUSSION ON THE IMPROVEMENT OF STATISTICAL INFORMATION ON TEA AND THE INTERNATIONAL TEA COMMITTEE HAS PREPARED A PAPER ON THEIR WORK, TE 77/5.

3. ADDITIONAL DOCUMENT JUST BEING RELEASED BY THE FAO INCLUDES A NOTE ON THE DEFINITION OF AN INDICATOR PRICE FOR TEA, TE 77/4, WHICH SUGGESTS THAT A REASONABLY REPRESENTATIVE COMPOSITE INDICATOR PRICE FOR TEA CAN BE OBTAINED BY COMBINING MONTHLY PRICE DATA FOR SELECT AUCTIONS EXPRESSED IN DOLLAR TERMS AFTER ADJUSTMENT TO A COMMON MARKETING LEVEL AND AFTER LIMITED OFFICIAL USE

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PAGE 03 ROME 00716 01 OF 02 171720Z

BEING DE-SEASONALIZED. THE NOTE GOES ON TO SUGGEST A THREE-MONTH MOVING AVERAGE INDICATOR PRICE MIGHT BE USED FOR SETTING PRICE OBJECTIVES UNDER AN INTERNATIONAL AGREEMENT.

4. DOCUMENT TE 77/3, "AN INTERNATIONAL AGREEMENT ON TEA BETWEEN EXPORTING AND IMPORTING COUNTRIES INCORPORATING A "STAND-BY" EXPORT QUOTE SCHEME", REFINES THE UK'S PAPER DISCUSSED AT THE LAST IG ON TEA, ROME 6372, ON A POSSIBLE INTERNATIONAL ACTION ON TEA AND CONCENTRATES ON A LIMITED NUMBER OF ISSUES. FIRST THE PAPER REVIEWS THE DECLINE IN REAL TERMS OF BOTH UNIT AND TOTAL VALUE OF WORLD TEA EXPORTS AND CONCLUDES NOT MUCH IMPROVEMENT CAN BE EXPECTED AND, ONCE COFFEE PRICES DECLINE AROUND 1980, TEA PRICES WILL FALL. THEREFORE, PAPER SAYS THERE IS A STRONG CASE FOR INTERNATIONAL COOPERATION AND STATES A STRONGER INTERNATIONAL TEA AGREEMENT COULD BE NEGOTIATED IF SUCH AN AGREEMENT WERE NEGOTIATED WITHIN THE MULTI-COMMODITY FRAMEWORK OF THE UNCTAD INTEGRATED PROGRAM AND IF A COMMON FUND, THE CORE ELEMENT OF THIS PROGRAM, WERE ESTABLISHED.

5. THE OBJECTIVES OF AN INTERNATIONAL TEA AGREEMENT ARE LINKED TO THE OBJECTIVES OF UNCTAD'S INTEGRATED PROGRAM FOR COMMODITIES AND ARE USUAL GOALS FOR A STAND-BY QUOTA SScheme. THE PAPER THEN TREATS THE FOLLOWING PROVISION IT ENVISAGES IN SUCH A SCHEME:

A. DEFINITION OF AN INDICATOR PRICE. THIS IS CRITICAL TO THE AGREEMENT AND DISCUSSED IN A SEPARATE PAPER, PARA 3 ABOVE.

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PAGE 01 ROME 00716 02 OF 02 171751Z

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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 0716

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B. ANNUAL ESTABLISHMENT OF PRICE OBJECTIVES. THIS COULD BE BASED ON INDICATIVE PRICES AND A DECISION ON THEIR LEVEL WOULD BE THE MOST IMPORTANT FUNCTION OF A GOVERNING BODY SET UP UNDER AN INTERNATIONAL AGREEMENT. THE NEGOTIATING CONFERENCES WOULD DETERMINE THE FIRST PRICE. IF PRICES FELL BELOW THE OBJECTIVE PRICES, THEN THE STAND-BY QUOTAS WOULD GO INTO EFFECT SUBJECT TO SPECIFIC CIRCUMSTANCES WHICH WOULD ASSURE QUOTAS ARE INDEED STAND-BY AND GIVE GOVERNING BOARD SOME DISCRETION.

C. CERTAIN PRODUCERS WOULD BE EXEMPT FOR BEING SUBJECT TO

EXPORT QUOTAS. OF THE 21 TEA PRODUCERS, POSSIBLY 10 WOULD BE EXEMPT IF EXEMPTION IS BASED ON EXPORTING ANNUALLY 10,000 TONS OF TEA OR MORE.

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PAGE 02 ROME 00716 02 OF 02 171751Z

D. ALLOCATION OF EXPORT QUOTAS MIGHT BE BASED ON A RUNNING AVERAGE FOR THE LAST THREE YEARS' EXPORTS WITH PROVISION FOR THE REALLOCATION OF EXCESS QUOTAS. THE LATTER PROVISION MIGHT FAVOR THE SMALLER PRODUCERS AS DISTINCT FROM THE TWO MAIN EXPORTERS (65 PERCENT IN 1975), INDIA AND SRI LANKA. CHINA, AS THE THIRD LARGEST PRODUCER, IS AN UNKNOWN FACTOR. TOTAL QUOTAS WOULD BE BASED ON A STATISTICAL COMMITTEE'S ASSESSMENT OF WORLD NET IMPORT DEMAND AT THE PRICE OBJECTIVE AFTER DEDUCTING ESTIMATED EXPORTS OF EXEMPTED COUNTRIES AND NON-MEMBER COUNTRIES. EXPORT QUOTAS WOULD NOT INCLUDE RESTRICTIONS ON PLANTINGS. IN THE PAST THE AFRICAN COUNTRIES LED BY KENYA HAVE BEEN RELUCTANT TO JOIN AN INTERNATIONAL TEA AGREEMENT BECAUSE IT WOULD STOP THEIR RAPID PRODUCTION INCREASE. THE EXEMPTION PROVISIONS, ROLLING CALCULATION OF QUOTAS, POSSIBLE FAVORABLE DISTRIBUTION OF EXCESS QUOTAS, AND NO RESTRICTION ON PLANTING ARE ALL DESIGNED TO WOO THE AFRICAN STATES, WHICH MAKE UP 10 OF THE 21 PRODUCERS. A FURTHER INDUCEMENT IS SUGGESTED BY TRYING THE ABOVE STAND-BY QUOTA SCHEME TO UNCTAD'S COMMON FUND WITH SALES TO THE COMMON FUND NOT INCLUDED IN A COUNTRY'S EXPORTS UNTIL SOLD BY THE FUND. THE PAPER ADMITS THIS IDEA WOULD REQUIRE FURTHER VERY THOROUGH TECHNICAL EXAMINATION.

E. THE AGREEMENT WOULD ALSO CONTAIN PROVISIONS ON MARKET INFORMATION AND REMOVAL OF OBSTACLES TO CONSUMPTION.

6. THE FAO'S REVISED ASSESSMENT OF THE LONGER-TERM OUTLOOK FOR TEA 1980 AND 1985 IS A GOOD STATISTICAL JOB WHOSE PROSE VACILLATES BETWEEN CONFLICTING POSITIONS IN IG ON TEA OVER WHETHER TEA EXPORT MARKET HAS TURNED CORNER AND WILL NOW COMMAND STABLE RENUMERATIVE PRICES OR NOT. ON BASIS OF SECRETARIAT'S REDUCED PROJECTIONS OF PRODUCTION AND CONSERVATIVE PROJECTION OF DEMAND, TEA INDUSTRY IS ESSENTIALLY IN BALANCE. BUT HIGH COFFEE PRICES AND CURRENT TIGHT SUPPLY/DEMAND SITUATION MAKES SHORT TERM TEA PRICE FLUCTUATIONS PROBABLE. FURTHER IN REAL TERMS AND COMPARED TO EARLY 1960'S, PRICE IS STILL VERY

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PAGE 03 ROME 00716 02 OF 02 171751Z

LOW.

7. COMPLETE SINGLE SET OF IG ON TEA DOCUMENTS ARE BEING
POUCHED PILKAUKKAS, EB/ICD/TRP, IN ADDITION TO REGULAR DIS-
TRIBUTION.

8. FINALLY, FAO SECRETARIAT REMINDS US THAT U.S. TEA INDUSTRY
MEMBER AT LAST IG ON TEA PROMISED INFORMATION ON CHEAPER,
BETTER TEA CARTONS. END UNCLASSIFIED

9. BEING LIMITED OFFICIAL USE. BEGIN COMMENT: DISCUSSIONS
WITH TEA EXPERTS HERE INDICATE APPRECIATION OF EFFORTS TO
WOO AFRICANS TO TAKE MORE POSITIVE STAND TOWARD AN INTER-
NATIONAL TEA AGREEMENT BUT NO EXPECTATION THAT AFRICANS WILL
BE WILLING TO PARTICIPATE. UK SEES KENYA AS CENTER OF OPPO-
SITION WITH REST OF AFRICANS BEGINNING TO BE MORE AGREEABLE.
WE BELIEVE THAT ON ECONOMICS OF TEA MARKET AFRICANS PROBABLY
STILL NOT INTERESTED IN PROPOSED INTERNATIONAL AGREEMENT ON
TEA, BUT THEIR POSITION MAY SOFTEN WITH ISSUE NOW PUT IN CON-
TEXT OF UNCTAD INTEGRATED COMMODITY PROGRAM AND COMMON FUND.
UNCTAD/GROUP OF 77 SOLIDARITY MAY NOW OUTWEIGH AFRICAN TEA
INTERESTS. END COMMENT END LIMITED OFFICIAL USE.HVOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TEA, MEETINGS
Control Number: n/a
Copy: SINGLE
Sent Date: 17-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME00716
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770017-0182
Format: TEL
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770145/aaaabnjb.tel
Line Count: 244
Litigation Code IDs:
Litigation Codes:
Litigation History:
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Office: ACTION IO
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 77 ROME 7126, 77 ROME 6372
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 07-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3580642
Secure: OPEN
Status: NATIVE
Subject: DOCUMENTATION FOR FOURTH SESSION OF THE FAO'S INTER- GOVERNMENTAL GROUP ON TEA MEETING IN LONDON, FEBRUARY 14-25, 1977
TAGS: ETRD, EAGR, IT, FAO
To: STATE
Type: TE
vdkgvkey: odbc://SAS/SAS.dbo.SAS_Docs/91c9f2d8-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009